

Voluntary Report - public distribution

**Date:** 12/22/2003

**GAIN Report Number:** BK3016

# **Bosnia-Hercegovina**

## **Tobacco and Products**

### **Update**

### **2003**

**Approved by:**

Sarah Hanson  
U.S. Embassy

**Prepared by:**

Sanela Stanojovic

---

**Report Highlights:**

Tobacco production was around 5,000 MT this year. Planting area is increasing every year because of profitability and government support. The Bosnian population consumes about 10 billion cigarettes annually. Four active cigarette factories produce around 7 billion cigarettes. Cigarette smuggling has become one of the most profitable and widespread illegal activities in the region and involves both locally produced and imported brands.

---

Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Unscheduled Report  
Vienna [AU1]  
[BK]

## Tobacco Production

In 2003, tobacco was sown on 1,750 ha in the Republika Srpska<sup>1</sup> (RS) and 2,100 ha in the Federation of Bosnia and Herzegovina (FBiH). Unfavorable weather conditions, low precipitation and viral diseases affected production of tobacco in northern part of BiH and resulted with an average yield of around 1.3 MT/ha and total production of 5,000 MT. The area is increasing every year since 1996 because this production is quite profitable for farmers and well supported by the entity governments if compared to other agricultural commodities. Next year this area could stagnate because the Ministry of Agriculture still hasn't paid the entire premium for dry tobacco leaf to growers for 2002.

Tobacco is mostly grown in the northern and northeastern part of Bosnia and the southern part of the country, in Herzegovina. Virginia and Burley types are grown the most.

### Production Policy

Minimal purchase price in the FBiH is set at 3 KM<sup>2</sup> /kg for raw tobacco. A premium of 0.90 KM is paid for kilogram of dry tobacco (all types). One third of the premium for 2002 remained unpaid.

The RS sets no minimal purchase price. The current purchase price for Virginia ranges from 3.46 KM/kg for the 1<sup>st</sup> quality class to 0.50 KM/kg for the 6<sup>th</sup> class. The price for Burley ranges from 2.40 KM/kg for the 1<sup>st</sup> class to 1.10 KM/kg for the 5<sup>th</sup> quality class. Also, a different premium is paid for different quality classes and types of tobacco, and ranges from 1.00 – 0.60 KM/kg for Virginia and from 0.80 – 0.50 KM/kg for Burley.

### Production of Cigarettes

There are four active factories. The largest one, Fabrika duhana Sarajevo (FDS) produces annually around 4,000 MT of cigarettes and covers the largest share of the market. Other factories are Fabrika duhana Mostar, General Tobacco Industry Ljubuski and Fabrika duhana Banja Luka with annual capacity of 2,000 MT and less. Sarajevo factory processes around 35% of locally produced tobacco or about 1,500 MT, and the rest, about 65% is imported tobacco.

The estimated total local production of cigarettes in BiH is around 7.0 billion or around 70% of total needs because the estimated total consumption is around 10 billion cigarettes.

### Consumption

Bosnian population of 3.8 million people annually consumes 10 billion cigarettes. The Bosnian and Herzegovinan ministries of finance issue around 500 million excise stamps (20 cigarettes in pack) annually. This consumption figure should be higher because of widespread cigarette smuggling in the region. According to the Institute for Public Health, 60% of the population over 15 years of age smoke. The consumption is stagnating or slightly growing every year.

Locally produced and Croatian imported filter cigarettes are the most popular and consumed. Consumption of light, extra light and ultra light types increased lately. Most consumers are price conscious and therefore often buy cheaper cigarettes.

---

<sup>1</sup> Under the 1995 Dayton Peace Agreement, Bosnia Herzegovina (BiH) is divided into two Entities: the Federation of Bosnia and Herzegovina (F BiH) and Republika Srpska (RS). Due to this dual governmental structure there is no common agricultural policy at the national level. Also, there is no official crop data available on countrywide basis and producer support programs vary by Entity.

<sup>2</sup> BiH currency, KM (Convertible Mark); 1.00 KM ≈ \$1.60

Retail prices for BiH cigarettes range from 0.60 KM – 2.00 KM. Retail prices for imported Croatian cigarettes range from 1.00 KM to 1.70 KM and for licensed cigarettes “Marlboro” retail price is 2.80 KM. “Lucky Strike” cost 2.00 KM, The retail price for “Cartier”, “Davidoff” and “Rothmans” is 3.00 KM.

### Trade

According to the BiH Chamber of Foreign Trade, tobacco and products represent the fourth most imported product to the country.

Table 1. Import/export data for BiH trade in tobacco and products for years 2002 and 2003<sup>3</sup> in MT

	Year	Tobacco	Cigarettes	Total
Import	2002	3,370	6,200	9,570
	Jan.-Sept. 2003	N/A	N/A	6,630
Export	2002	1,200	400	1,600
	Jan.-Sept. 2003	N/A	N/A	1,535

BiH exported tobacco to Macedonia FYR, Croatia and Serbia and imported from Macedonia, Greece, Brazil, Zimbabwe, Malawi and Serbia.

Cigarettes are exported mostly to Serbia and Montenegro, Kosovo and Macedonia FYR. Around 65% of total imported cigarettes BiH imports from Croatia. In 2002, BiH imported around 6.200 MT of cigarettes and 4.100 MT originated from Croatia.

### Import Duties and Special Taxes

For import of all types of tobacco and products a tariff of 15% (ad valorem) is applied, plus 1% customs fee.

The trade of tobacco and products is subject to special taxation and requires a license issued by the BiH' Ministries of Finance. The Ministry of Finance issues control excise stamps which are to be included in the packaging prior to import into BiH. Taxes are same for locally produced (including licensed cigarettes) and imported cigarettes. In the FBiH this tax is 40% and in the RS it's 35%.

Cigarette smuggling has become one of the most profitable and widespread illegal activities in the region and involves both locally produced and imported brands. It's also believed that counterfeit, low-priced cigarettes are produced from smuggled, low-quality tobacco in small factories all over the country. These cigarettes could be bought for cheaper price at open markets. Customers are probably unaware of health hazard that they represent. Recently, the FBiH Tax Administration announced that they issued 30 million less excise stamps this year than last year. It is unlikely that consumers gave up or decreased consumption or that local production decreased. In addition, tobacco imports grew for the first 9 months of 2003 compared to last year. It is estimated that the BiH loses around 500 million KM annually because of illegal cigarette imports.

The tax being equally applied to both locally produced and imported cigarettes is an issue.

<sup>3</sup> Sources: FBiH and RS Institute of Statistics, BiH Chamber of Foreign Trade

Representatives from the Government have suggested a tax increase for imported cigarettes in order to increase support to farmers. Rumors suggest that a strong importers' lobby is stopping the tax increase.

**Laws and Regulations**

The Federation of BiH adopted the Law on Limited Use of Tobacco Products (FBIH OG # 6/98) that forbids smoking in almost all public places and institutions. Restaurant must have a separated smoking section. The law also sets the labeling requirements: producers of cigarettes and tobacco must indicate clearly "Smoking causes health problems" on the front of the packaging. The content of nicotine and tar must be indicated on the side of the packaging, as well as one of following statements "Smoking shortens life", "Smoking causes lung cancer and heart diseases" and "Smoking during pregnancy is dangerous for child development". These warnings should be printed in different color and placed where they won't be damaged by product opening. This Law was never successfully enforced. Advertising of cigarettes/products is forbidden, except for products new to market, in duration of 15 days. Factories/producers can be advertised. The law also forbids cigarette sale to persons younger than 15 years, from vendor machines and near schools and sport fields if vendors are located less than 100 m. The Republika Srpska has no anti-smoking laws yet.

PSD Table							
Country	Bosnia-Herzegovina						
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)		
	2001	Revised	2002	Estimate	2003	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2001		01/2002		01/2003	MM/YYYY
Filter Production	8600	6500	8600	6500	8600	7000	(MIL PCS)
Non-Filter Production	0	0	0	0	0	0	(MIL PCS)
TOTAL Production	8600	6500	8600	7000	8600	7000	(MIL PCS)
Imports	1000	3500	1000	3500	1000	3000	(MIL PCS)
TOTAL SUPPLY	9600	10000	9600	10000	9600	10000	(MIL PCS)
Exports	0	0	0	0	0	0	(MIL PCS)
Domestic Consumption	9600	10000	9600	10000	9600	10000	(MIL PCS)
TOTAL DISTRIBUTION	9600	10000	9600	10000	9600	10000	(MIL PCS)

PSD Table							
Country	Bosnia-Herzegovina						
Commodity	Tobacco, Unmfg., Total				(HA)(MT)		
	2001	Revised	2002	Estimate	2003	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2001		01/2002		01/2003	MM/YYYY
Area Planted	0	3200	0	3500	0	3850	(HA)
Beginning Stocks	0	8000	0	7380	0	7165	(MT)
Farm Sales Weight Prod	0	4160	0	5250	0	5005	(MT)
Dry Weight Production	0	3538	0	4515	0	4304	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	0	4000	0	3370	0	4000	(MT)
TOTAL Imports	0	4000	0	3370	0	4000	(MT)
TOTAL SUPPLY	0	15580	0	15265	0	15469	(MT)
Exports	0	1500	0	1200	0	1200	(MT)
Dom. Leaf Consumption	0	3000	0	3200	0	3400	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	0	3700	0	3700	0	3600	(MT)
TOTAL Dom. Consumption	0	6700	0	6900	0	7000	(MT)
TOTAL Disappearance	0	8200	0	8100	0	8200	(MT)
Ending Stocks	0	7380	0	7165	0	7269	(MT)
TOTAL DISTRIBUTION	0	15580	0	15265	0	15469	(MT)